

## Message Text

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INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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R 201420Z JUN 75

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TO SECSTATE WASHDC 0574

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PASS TREASURY FOR SYVRUD FROM TREASURY ATTACHE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: MEDIUM-TERM OUTLOOK

1. SUMMARY: GOF ECONOMIC POLICY ON BALANCE STILL AIMED AT REDUCING INFLATION AND IMPROVING BALANCE OF PAYMENTS DESPITE SEVEREST RECESSION IN POSTWARD PERIOD. OFFICIAL ASSESSMENT IS THAT RECESSION AT OR NEAR BOTTOM AND THAT COMBINATION OF INVENTORY ADJUSTMENT LEADING TO REVIVAL OF ORDERS AND RECOVERY LATER ON BY MAJOR EC PARTNERS, ESPECIALLY WEST GERMANY, LEADING TO REVIVAL OF EXPORTS, WILL BE SUFFICIENT TO GENERATE A SATISFACTORY ECONOMIC GROWTH RATE IN 1976. FOR 1975 REAL GROWTH OF LESS THAN 2 PERCENT IS EXPECTED WITH UNEMPLOYMENT REACHING ONE MILLION. GOF OBVIOUSLY MOST ANXIOUS TO AVOID A "GO-STOP" POLICY. FRENCH MONETARY AND FISCAL POLICY REMARKABLY RESTRAINED GIVEN RECES-

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SIONARY CONDITIONS. FISCAL DEFICIT WILL NOT RISE AS

THE RESULT OF SPECIAL INVESTMENT INCENTIVES, AND CREDIT, DESPITE SOME RELAXATION, STILL AT LEVELS WHICH REPRESENT LITTLE REAL INCREASE OVER THE LAST QUARTER OF 1974. THE POLICY OF RESTRAINT COULD CHANGE QUICKLY IF SOCIAL AND POLITICAL PRESSURES OCCUR BUT CLEARLY THE GOF HOPES THAT THE MILD RECOVERY EXPECTED TO BEGIN BY FALL OR EARLY 1976 WILL ENABLE IT TO CONTINUE POLICIES EMPHASIZING PRICE STABILITY AND BALANCE OF PAYMENTS. SINCE GOF POLICY ANTICIPATES INCREASED EXPORTS LARGELY RELATED TO ECONOMIC REVIVAL IN WEST GERMANY, THERE IS A STRONG ELEMENT OF EXPORT-LED GROWTH IN GOF STRATEGY OVER NEAR TERM. IN TERMS OF CYCLICAL TRENDS, FRANCE ALMOST CERTAIN TO LAG U.S., WEST GERMANY AND JAPAN ON RECOVERY PATH. END SUMMARY.

2. FOLLOWING OUR ESTIMATE LIKELY GROWTH:

FRENCH GNP REAL GROWTH ANNUAL RATES (PERCENT)

1973	1974	1975#	1976#	1977#
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6.0	3.8	- 1.5 TO 2	5 TO 5	5 TO 8
		1.5		

#LOWER RANGES ASSUME SIGNIFICANT OIL PRICE INCREASE IN FALL OF 1975. HIGHER RANGE IN 1976 AND 1977 REFLECTS RECOVERY FROM LOWER RANGE IN PRECEDING YEAR.

FOR 1975 VIRTUAL STAGNATION, WITH AN UPTURN SEEN POSSIBLE IN THE FINAL QUARTER FOLLOWING COMPLETION CURRENT INVENTORY ADJUSTMENT. EXTENT OF RECOVERY IN 1976 WILL BE GOVERNED BY ACTUAL AND POTENTIAL EXPORT PROSPECTS AS THE ECONOMIES OF FRANCE'S MAJOR TRADING PARTNERS (GERMANY, ITALY, BELGIUM, UK.) REVIVE. CAPITAL EQUIPMENT SECTOR MAY LEAD THE REVIVAL, THROUGH EXPORT SALES BUT ALSO BY FRENCH INDUSTRY WHICH MAY BEGIN TO RESPOND TO GOF INVESTMENT INCENTIVES IN LATTER PART OF YEAR. REAL GROWTH IN 1976 MAY BE ON THE ORDER OF 5 PERCENT, REFLECTING (A) LOW LEVEL OF OUTPUT IN LIMITED OFFICIAL USE

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1975 AS BASIS OF COMPARISON, AND (B) POSSIBILITY OF ECONOMIC ACTIVITY AND TRADE AMONG INDUSTRIAL COUNTRIES RETURNING TO SOMETHING NEAR 1974 LEVELS. GROWTH IN 1977 MAY RESUME 5.5 TO 6 PERCENT RANGE PREVAILING IN PRE-SLUMP YEARS, BUT IN VIEW OF THE GAP BETWEEN ACTUAL AND POTENTIAL OUTPUT BASED ON CURRENT RECESSION, REAL GROWTH COULD JUMP TO 8 PERCENT OR EVEN MORE AT AN ANNUAL RATE DURING 1977 IF THEGOF ENCOUNTERS

IRRESISTIBLE PRESSURE TO REDUCE UNEMPLOYMENT. GOF HAS WITHSTOOD SUCH PRESSURES SO FAR, DESPITE HIGHEST LEVEL OF UNEMPLOYMENT IN POSTWAR FRANCE. WHETHER IT CAN CONTINUE TO DO SO REMAINS THE KEY QUESTION FOR THE MEDIUM-TERM ECONOMIC OUTLOOK.

IF OIL PRICES ARE INCREASED SUBSTANTIALLY THIS FALL,

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THE GRADUAL UPTURN EXPECTED IN THE FRENCH ECONOMY WILL NOT OCCUR, AND THE REVIVAL OF OTHER WESTERN EUROPEAN ECONOMIES NO DOUBT WILL BE DEFERRED. IN SUCH CIRCUMSTANCES, THE GROWTH PATH OF THE FRENCH ECONOMY WILL REMAIN VERY LOW AT LEAST UNTIL 1977, EVEN THOUGH SOME MEASURES TO STIMULATE DOMESTIC DEMAND MIGHT BE NECESSARY IN ORDER TO AVOID A FURTHER RISE IN UNEMPLOYMENT.

IN CYCLICAL TERMS, FRANCE ENTERED DOWNTURN IN 4TH QUARTER 1974 AND WILL ALMOST CERTAINLY COME OUT LATE, RELATIVE TO U.S., GERMANY AND JAPAN, AS GOF HAS MADE CLEAR THAT IT EXPECTS TO ATTAIN ECONOMIC REVIVAL FOLLOWING OTHER MAJOR COUNTRIES. GOF IS PREOCCUPIED WITH DANGER OF "STOP-GO" SITUATION DEVELOPING AMONG INDUSTRIAL COUNTRIES. PRE-EMINENT CONCERNS REMAIN INFLATION AND PAYMENTS EQUILIBRIUM.

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3. FRANCE DOES NOT SEEM LIKELY TO BE PUSHED INTO TAKING "EXCESSIVE" REFATIONARY POLICIES UNLESS STRONGER SOCIAL AND POLITICAL PRESSURES DEVELOP, PARTICULARLY AN UNFORESEEN RISE IN UNEMPLOYMENT. GOF HAS STOOD ITS GROUND, DESPITE SEVERE RECESSION AND WORST UNEMPLOYMENT SITUATION IN POSTWAR ERA. GOF HAS BEEN CONTENT TO PROVIDE MODEST -- AND SELECTIVE -- SUPPORT TO CRITICAL SECTORS OF ECONOMY, WHILE ESCHEWING MEASURES WHICH COULD REKINDLE INFLATION. IN THE EVENT OF AN OIL PRICE INCREASE, GOF PROBABLY WOULD BE FORCED TO OPT FOR FAST-ACTING STIMULATIVE MEASURES IN ORDER TO AVOID AGGRAVATING UNEMPLOYMENT.

4. OVER MEDIUM TERM, ONLY REAL INDICATION OF GOF'S PROBABLE COURSE OF ACTION IS THE 1976-80 PLAN CURRENTLY BEFORE PARLIAMENT. AS PRESENTED, PLAN FEATURES CURRENT ACCOUNT EQUILIBRIUM BY 1980, BASED ON HEAVY INVESTMENTS IN COMPETITIVE SECTORS AND COMMENSURATE LEVEL OF SAVINGS. HOWEVER, A WORSENING EMPLOYMENT SITUATION WOULD CERTAINLY SHIFT INVESTMENT PRIORITIES TOWARD ACTIVITIES DESIGNED TO SUSTAIN EMPLOYMENT. CONCERNING GROWTH RATE, THE 1976-80 PLAN CONTINUES TO REFLECT FRANCE'S "TRADITIONALLY" HIGH RATES OF REAL GROWTH. THE RECOMMENDED "FAST-GROWTH OPTION" OF 5.2 PERCENT PER ANNUM OVER NEXT 5 YEARS MUST NOW BE RECONCILED WITH ONGOING POLICIES TO CONTROL INFLATION AND ASSURE EXTERNAL BALANCE. IT REMAINS TO BE SEEN HOW SEVENTH PLAN WILL AFFECT ECONOMIC POLICY, SINCE PREVIOUS TWO PLANS HAD DUBIOUS IMPACT.

5. AS REGARDS EXPORT-LED GROWTH, GOF EXPECTS ECONOMIC REVIVAL IN GERMANY AND THAT THIS, COMBINED WITH SELECTIVE DOMESTIC INVESTMENT STIMULATION, WILL ENABLE UPTURN IN FRENCH ECONOMY. TIMING ALMOST CERTAINLY BEING PUSHED BACK INTO 1976 IN VIEW OF WEST GERMAN SITUATION. BENEFIT TO FRANCE OF U.S. ECONOMIC RECOVERY IS LARGELY INDIRECT, I.E., IN TERMS OF ITS EFFECTS ON FRANCE'S PRINCIPAL TRADING PARTNERS -- GERMANY, ITALY, BENELUX AND U.K., WHICH ACCOUNT FOR

HALF OF FRENCH EXPORTS. ONLY 5 PERCENT OF FRENCH  
EXPORTS GO TO U.S. FOR ECONOMY AS A WHOLE, HOWEVER,  
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FOREIGN SECTOR IS OF KEY IMPORTANCE, ESPECIALLY IN VIEW  
OF GOF'S CURRENT BALANCE OF PAYMENTS GOALS, ANTI-  
INFLATION PROGRAM, AND DESIRE FOR GRADUAL RESTORED  
GROWTH.

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6. FOLLOWING SUMMARY OF FORECASTS OF KEY ECONOMIC  
INDICATORS COVERS 1975 ONLY BECAUSE AT THIS TIME THERE

ARE NO PUBLISHED PROJECTIONS BEYOND THE END OF 1975:

FRENCH ECONOMIC FORECASTS FOR 1975  
(CHANGES IN PERCENT DURING YEAR)

	GOVT.	PRIVATE
REAL GIP	2.1	1.8
IMPORTS	-3.7	-3.0
EXPORTS	1.1	0.5
CONSUMER PRICES	11.3	11.5
TOTAL CONSUMPTION	2.6	2.2
INVESTMENT	2.0	0.3

GOVERNMENT FORECASTS BASED ON FIGURES GENERATED  
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BY FINANCE MINISTRY IN CONJUNCTION WITH PREPARATION OF  
1975-76 FINANCIAL LEGISLATION AND BUDGET. PRIVATE  
SECTOR FORECASTS REFLECT THINKING OF ECONOMISTS WITH  
PARIS CHAMBER OF COMMERCE, AS WELL AS BANKING AND  
FINANCIAL COMMUNITY AND FRENCH PATRONAT (ROUGHLY  
EQUIVALENT TO N.A.M.). IN BOTH CASES, UNDERLYING DATA  
ARE THOSE CONTAINED IN RECENTLY RELEASED 1974 NATIONAL  
ACCOUNTS (REPORT ON WHICH FORTHCOMING BY AIRGRAM). ALL  
FORECASTS NOTABLY PASS ON QUESTION OF OIL-PRICE  
INCREASE IN 1975.  
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